

Lehman Call with Jim Seery
Thursday, September 19, 2008 – 9PM

- Company had been shopping around in the past several weeks
- Bank of America seemed quite interested and did some serious and diligence (65 people, valuation, analyses, etc)
- Deal centered around commercial real estate
- Barclays came later, Koreans (KDB) were also a possibility
- Barclay diligence process was very different, much fewer people, didn't want real estate, nor the risk in it or the financing thereof
- The trade to Barclays was thought to be done, but due to several factors, mostly the Fed not supporting the Finco, as well as raucous environment from Merrill and Washington Mutual, deal fell through
- FSA also didn't want Barclays to take on the risk
- Filed that night, pushed into it by the Fed and SEC
- Soon after called Barclays to see if they could work out an asset sale
 - No chance to get BofA back involved as they were going through with Merrill
 - Koreans were long gone
- When they filed their book was left 'naked' as the hedges were pulled by the counterparties. Suffered a veritable 'bloodbath' to the tune of \$1 billion.
- All desks, employees, banking (people), and equity business is going over, not derivatives though
- On 9/16/08 B/S \$40 billion of governments, short of \$21, net long of \$19 billion matched against ST funds.
- Book is relatively flat and slightly down from the agreement, some exposures don't have hedges though
- Mortgages now have no shorts, \$6b originally, now about \$2.7
- Exchange traded derivatives don't have cancellation rights, so they go to Barclays
- JP Morgan is the clearing bank
 - Demanded collateral for funds held overnight
 - They change in value and so the amount of collateral demanded has gone up
 - JP now has a lien on these assets
- Basically it is a ST agreement, effectively a reverse repo
- Barclays is taking assets of \$72.6b, 68.4 in liabilities
 - Also, \$2 in employee comp and \$2.25 in cure
 - Assets transfer at close tomorrow
- A lot of client money is frozen in LBIE in London; PwC has effectively locked the place down
- Losses in derivatives books are mostly in LBSS
 - Sizeable exposure to derivatives
 - Reliant on holdings guarantee
 - Chase is holding \$11b in excess collateral to cover the derivatives
- Deals like Imperial Sugar (PE) are in LB1
 - Not getting transferred
- LCPI had \$9b funded (subject to damages), \$3b unfunded



- High Yield is not “joint & several” agent lends first and then gets funds
- When they receive payment they try to get it back out
- Transfer agent business pre-petition in credit if they want it, if not, on a case by case basis
 - Barclays is going to get people for the agent business
 - They do not want the liabilities on the revolvers
- LBI has an intercompany payable, need to find out these amounts, but not sure what they are
 - LCPI's is about \$39b
- Exchange deposits should be part of the Prime Brokerage business
 - Trading assets are in LBI
 - Longer term assets, equity, long only positions, HF investments are in LBI
- Building value is \$900m-\$1b, not sure about the data centers
- Adjustment to cash amount, \$3.3, assets sold as opposed to mark
 - Barclays will refi, hopefully on appropriate terms
- What is left after the deal closes?
 - Massive loan book, don't know damages from not funded, none yet but could be possible
 - Funded from Interco to holdings, some in banks, some in JP Morgan vehicles
- What about IBD WIP and AR?
 - WIP goes, AR stays
- PE is mostly but not entirely assets, there are some liabilities, and ramifications on LC's
- No good answer on the international front
 - UK is a mess
 - Mumbai is still functioning, may have some value
 - Barclays shows some interest in Asia (Tokyo, HK)
 - Don't know about Australia
- There are some crucial people that need to stay employed for unwinds
- Neuberger Berman Fixed Income fund, basically a money mkt, had a run on the bank, will announce tomorrow or Monday that they are suspending redemption
 - They may not return par (.97)
 - No liquidity led to discounts on par
 - Highly confidential
- Bain & H&F bid on NB, extensive diligence
- We have excellent access to diligence materials
- NB is a wasting asset, \$2b right now, maybe secure a stalking horse?
- \$1.5 billion of unfunded capital commitments in P/E
- \$2.3b (worth twice carry) of Lehman money in funds
 - Concerned with employees leaving and capital calls
- 2 or 3 funds were set up but never issued
 - Supposedly quite successful funds
 - Could be packaged

Call ended with Jim, discussed possible recovery and fee structure.